

**REPORT OF THE AUDIT OF THE  
LEE COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LEE COUNTY FISCAL COURT**

**June 30, 2005**

The Auditor of Public Accounts has completed the audit of the Lee County Fiscal Court for fiscal year ended June 30, 2005.

We have issued an unqualified opinion on the governmental activities and each major fund of Lee County, Kentucky.

#### **Financial Condition:**

The fiscal court had total net assets of \$3,072,242 as of June 30, 2005. The fiscal court had unrestricted net assets of \$391,248 in its governmental activities as of June 30, 2005, with total net assets of \$3,072,242. The fiscal court had total debt principal as of June 30, 2005, of \$442,826 with \$59,637 due within the next year.

#### **Report Comments:**

- Solid Waste Bills Totaling \$15,594 Were Waived Without Fiscal Court Approval
- Ambulance Bills Totaling \$60,870 Were Waived Without Fiscal Court Approval
- Late Fees For Solid Waste Collections Should Be Applied Consistently

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable L.C. Reese, Lee County Judge/Executive  
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Lee County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lee County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lee County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lee County, Kentucky as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To The People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
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Honorable L.C. Reese, Lee County Judge/Executive  
Members of the Lee County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2006, on our consideration of Lee County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the comments and recommendations, included herein, which discuss the following report comments:

- Solid Waste Bills Totaling \$15,594 Were Waived Without Fiscal Court Approval
- Ambulance Bills Totaling \$60,870 Were Waived Without Fiscal Court Approval
- Late Fees For Solid Waste Collections Should Be Applied Consistently

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 24, 2006



**LEE COUNTY OFFICIALS**

For The Year Ended June 30, 2005

**Fiscal Court Members:**

L.C. Reese	County Judge/Executive
Ronnie Paul Begley	Magistrate
Lenard Carl Ross	Magistrate
Bennie Todd	Magistrate
Everett L. Marshall	Magistrate

**Other Elected Officials:**

Tom Jones	County Attorney
Arthur Noe	Jailer
Russell Stamper	County Clerk
Emma Adams	Circuit Court Clerk
James Harvey Pelfrey	Sheriff
Gary Lutes	Property Valuation Administrator
Emmett Daugherty	Coroner

**Appointed Personnel:**

Pearl Spencer	County Treasurer
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**LEE COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**LEE COUNTY**  
**STATEMENT OF NET ASSETS – MODIFIED CASH BASIS**

**June 30, 2005**

	<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 391,248
Total Current Assets	<u>391,248</u>
Noncurrent Assets:	
Land Held For Development	
Capital Assets - Net of Accumulated Depreciation	
Land	174,244
Construction In Progress	
Buildings	1,507,787
Other Equipment	108,016
Vehicles	476,594
Equipment	257,647
Infrastructure	599,532
Total Noncurrent Assets	<u>3,123,820</u>
Total Assets	<u>3,515,068</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	59,637
Total Current Liabilities	<u>59,637</u>
Noncurrent Liabilities:	
Financing Obligations Payable	383,189
Total Noncurrent Liabilities	<u>383,189</u>
Total Liabilities	<u>442,826</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	2,680,994
Unrestricted	391,248
Total Net Assets	<u>\$ 3,072,242</u>

The accompanying notes are an integral part of the financial statements

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**LEE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**LEE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 594,970	\$ 66,039	\$ 60,611	\$
Protection to Persons and Property	657,448	784,312	66,071	424,585
General Health and Sanitation	1,052,600	344,980	38,452	60,014
Social Services	51,396		38,214	
Recreation and Culture	39,441			9,705
Roads	602,175		810,178	586,091
Interest on Long-Term Debt	27,871			
Capital Projects	78,708			
Total Governmental Activities	3,104,609	1,195,331	1,013,526	1,080,395
Total Primary Government	\$ 3,104,609	\$ 1,195,331	\$ 1,013,526	\$ 1,080,395

**General Revenues:**

Taxes:

    Real Property Taxes

    Personal Property Taxes

    Motor Vehicle Taxes

    Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**LEE COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

**Net (Expenses) Revenues**  
**and Changes in Net Assets**  
**Primary Government**

<b>Governmental</b>	
<b>Activities</b>	
<hr/>	
\$	(468,320)
	617,520
	(609,154)
	(13,182)
	(29,736)
	794,094
	(27,871)
	(78,708)
	<hr/>
	184,643
	<hr/>
	184,643
	<hr/>
	487,189
	72,691
	77,398
	87,561
	5
	96,786
	11,972
	<hr/>
	833,602
	<hr/>
	1,018,245
	<hr/>
	2,053,997
	<hr/>
\$	<u><u>3,072,242</u></u>

The accompanying notes are an integral part of the financial statements.

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**LEE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**LEE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Ambulance Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 184,175	\$ 96,379	\$ 9,758	\$ 39,235	\$ 9,885
Total Assets	<u>\$ 184,175</u>	<u>\$ 96,379</u>	<u>\$ 9,758</u>	<u>\$ 39,235</u>	<u>\$ 9,885</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 48,565	\$ 59,199	\$ 100	\$	\$ 2,538
Unreserved:					
General Fund	135,610				
Special Revenue Funds		37,180	9,658	\$ 39,235	\$ 7,347
Total Fund Balances	<u>\$ 184,175</u>	<u>\$ 96,379</u>	<u>\$ 9,758</u>	<u>\$ 39,235</u>	<u>\$ 9,885</u>

The accompanying notes are an integral part of the financial statements.

**LEE COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

<b>Solid Waste Fund</b>	<b>Total Governmental Funds</b>
\$ 51,816	\$ 391,248
\$ 51,816	\$ 391,248
\$ 25	\$ 110,427
	135,610
51,791	145,211
\$ 51,816	\$ 391,248

**Reconciliation of Balance Sheet - Governmental Funds  
to Statement of Changes In Net Assets:**

Total Fund Balances	\$ 391,248
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	4,289,167
Depreciation	(1,165,347)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(442,826)
Net Assets of Governmental Activities	\$ 3,072,242

The accompanying notes are an integral part of the financial statements.

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**LEE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**LEE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>REVENUES</b>			
Taxes	\$ 706,998	\$	\$
In Lieu Tax Payments	9,503	8,294	
Excess Fees	5		
Licenses and Permits	11,677		
Intergovernmental	553,637	1,143,377	41,496
Charges for Services	10,219		
Miscellaneous	120,285	14,341	350
Interest	10,234	1,290	76
Total Revenues	<u>1,422,558</u>	<u>1,167,302</u>	<u>41,922</u>
<b>EXPENDITURES</b>			
General Government	509,273		
Protection to Persons and Property	530,308	6,705	197,649
General Health and Sanitation	17,025		
Social Services	35,797		
Recreation and Culture	30,889		
Roads	82,076	1,047,914	
Debt Service	10,341	66,980	
Capital Projects	78,708		
Administration	120,921	98,813	4,815
Total Expenditures	<u>1,415,338</u>	<u>1,220,412</u>	<u>202,464</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>7,220</u>	<u>(53,110)</u>	<u>(160,542)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers From Other Funds	100,000	100,000	160,000
Transfers To Other Funds	<u>(160,000)</u>	<u>(100,000)</u>	<u></u>
Total Other Financing Sources (Uses)	<u>(60,000)</u>	<u></u>	<u>160,000</u>
Net Change in Fund Balances	(52,780)	(53,110)	(542)
Fund Balances - Beginning (Restated)	236,955	149,489	10,300
Fund Balances - Ending	<u>\$ 184,175</u>	<u>\$ 96,379</u>	<u>\$ 9,758</u>

The accompanying notes are an integral part of the financial statements.



**LEE COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>LGEA Fund</b>	<b>Ambulance Fund</b>	<b>Solid Waste Fund</b>	<b>Total Governmental Funds</b>
\$	\$	\$	\$ 706,998
			17,797
			5
			11,677
239,594	10,689	36,552	2,025,345
	773,932	344,980	1,129,131
7,575	73,555	3,824	219,930
118	138	115	11,971
<u>247,287</u>	<u>858,314</u>	<u>385,471</u>	<u>4,122,854</u>
			509,273
8,407			743,069
11,805	744,850	286,961	1,060,641
			35,797
			30,889
44,622			1,174,612
		28,531	105,852
			78,708
<u>1,233</u>	<u>175,544</u>	<u>51,732</u>	<u>453,058</u>
<u>66,067</u>	<u>920,394</u>	<u>367,224</u>	<u>4,191,899</u>
<u>181,220</u>	<u>(62,080)</u>	<u>18,247</u>	<u>(69,045)</u>
	60,000		420,000
<u>(160,000)</u>			<u>(420,000)</u>
<u>(160,000)</u>	<u>60,000</u>		
21,220	(2,080)	18,247	(69,045)
18,015	11,965	33,569	460,293
<u>\$ 39,235</u>	<u>\$ 9,885</u>	<u>\$ 51,816</u>	<u>\$ 391,248</u>

The accompanying notes are an integral part of the financial statements.

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**LEE COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**LEE COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**- Governmental Funds to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	(69,045)
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Amounts Reported for Governmental Activities in the  
Statement of Activities Are Different Because:  
Governmental Funds Report Capital Outlays as Expenditures. However, in the  
Statement of Activities the Cost of those Assets Are Allocated over their  
Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		1,199,928
Depreciation Expense		(190,619)

The Issuance of Long-term Debt Provides Current Financial Resources  
to Governmental Funds While the Repayment of Principal on  
Long-term Debt Consumes the Current Financial Resources of  
Governmental Funds.

Financing Obligations Principal Payments		<u>77,981</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>1,018,245</u></u>
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The accompanying notes are an integral part of the financial statements

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To The Financial Statements**

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**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets among other assets and liabilities are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Lee County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Lee County does not have any discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Public Service Corporation**

The Public Service Corporation is a legally separate entity established to provide debt service for the purchase of real estate property from the Kentucky Mountains Farm Cooperative. The Public Service Corporation's governing body consists entirely of Fiscal Court members. Therefore, management should include the Public Service Corporation as a component unit, and its financial activity should be blended with the Fiscal Court. However, the Public Service Corporation had no financial activity during the year and had no financial information to blend with that of the fiscal court.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Lee County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Lee County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lee County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one type (governmental) presented for Lee County, major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for road, protection of persons and property, social services and general health and sanitation expenditures.

Ambulance Fund - This fund accounts for all revenues from uses of the Ambulance Service along with some state contributions.

Solid Waste Fund - The primary purpose of this fund is to account for the solid waste expenses of the county. The primary sources of revenue for this fund are monthly collection fees and from the state and federal government. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the general fund.

The Local Economic Assistance Fund and the Jail Fund are special revenue funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and KACO Leasing Trust financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Joint Venture**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Lee County Fiscal Court:

Three Forks Region Jail

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Joint Venture (Continued)**

Three Forks Region Jail (Continued)

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements on the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements on the bonds as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

By execution of the lease and subleases, each county is obligated for the amount of its proportionate share, plus any operating cost allowance required under the lease and subleases.

Each county is liable solely for its own proportionate share of total annual debt service on the bonds and no one county is liable for another county's debt. Payment of the annual debt service on the bonds is dependent upon each participating county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full.

Each county has agreed in its lease and sublease agreements that in the event a county can not pay its indebtedness, an Ad Valorem Tax will be levied in that county for the amount sufficient to provide full payment of the county's rentals due for that year.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping and operation of the Three Forks Regional Jail.

It is anticipated under the management agreement that the three participating counties will share equally in the operational costs of the facility based on a daily bed allocation of 15 beds at \$25 per day on a take-or-pay basis. It is anticipated under the management agreement that the counties will not be required to make additional payments to the operation of the facility; however, should there be a shortfall in operating revenue, the counties will pay equally to the authority, those moneys required to meet the debt service and operational costs.

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8) member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee county jailer is a required member of the board.

On May 27, 2005, the Auditor of Public Accounts issued an Independent Auditor's Report on the June 30, 2004, financial statements of the Three Forks Regional Jail Authority. This report outlines that the Three Forks Regional Jail (a joint venture of the Lee County Fiscal Court) has suffered recurring losses from operations and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. The financial situation of the Three Forks Regional Jail has a severe and direct impact on the Lee County Fiscal Court's current and future budgets. Lee County's commitment to the Three Forks Regional Jail is outlined in Note 1. A copy of the Three Forks Regional Jail Authority's audit report may be obtained at [www.auditor.ky.gov](http://www.auditor.ky.gov), or in writing at the Auditor of Public Accounts, 105 Sea Hero Road, Suite 2, Frankfort, Kentucky 40601, or by telephone at (502) 573-0050.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. Lee County Fiscal Court does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital Asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 174,244	\$	\$	\$ 174,244
Construction In Progress	267,277		(267,277)	
Total Capital Assets Not Being Depreciated	441,521		(267,277)	174,244
Capital Assets, Being Depreciated:				
Buildings	1,615,405	390,202		2,005,607
Other Equipment	164,521	15,000		179,521
Vehicles	662,507	165,309		827,816
Equipment	472,562			472,562
Infrastructure		629,417		629,417
Total Capital Assets Being Depreciated	2,914,995	1,199,928		4,114,923
Less Accumulated Depreciation For:				
Buildings	(470,391)	(27,429)		(497,820)
Other Equipment	(49,499)	(22,006)		(71,505)
Vehicles	(273,581)	(77,641)		(351,222)
Equipment	(181,257)	(33,658)		(214,915)
Infrastructure		(29,885)		(29,885)
Total Accumulated Depreciation	(974,728)	(190,619)		(1,165,347)
Total Capital Assets, Being Depreciated, Net	1,940,267	1,009,309		2,949,576
Governmental Activities Capital Assets, Net	<u>\$ 2,381,788</u>	<u>\$ 1,009,309</u>	<u>\$ (267,277)</u>	<u>\$ 3,123,820</u>
<u>Governmental Activities:</u>				
General Government			\$ 22,841	
Protection to Persons and Property			67,188	
General Health and Sanitation			10,959	
Social Services			15,599	
Recreation and Culture			8,552	
Roads			65,480	
Total Depreciation Expense - Governmental Activities			\$ 190,619	

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Short-Term Debt**

Changes in Short-Term Liabilities

In July 2004, Lee County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$754,900, with principal being due in January 2005. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$ 3,496.

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$ 0	\$ 754,900	\$ 754,900	\$ 0
Governmental Activities Short-Term Liabilities	<u>\$ 0</u>	<u>\$ 754,900</u>	<u>\$ 754,900</u>	<u>\$ 0</u>

**Note 5. Long-Term Debt**

**A. Grader**

In June 1995, the county entered into a capital lease agreement for \$99,000 with Kentucky Association of Counties Leasing Trust Program for a grader. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2005. The last payment was made in January 2005, and as of June 30, 2005, the principal balance was \$0.

**B. Truck/Backhoe**

In July 1997, the county entered into a financing obligation agreement for \$71,000 with Kentucky Association of Counties Leasing Trust Program for a truck and a backhoe. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2007. As of June 30, 2005, the principal balance was \$12,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 6,000	\$ 532
2007	<u>6,000</u>	<u>196</u>
Totals	<u>\$ 12,000</u>	<u>\$ 728</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-Term Debt (Continued)**

**C. Voting Machines**

In September 1999, the county entered into a financing obligation agreement for \$43,945 with Kentucky Association of Counties Leasing Trust Program for voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable monthly principal payments. The final payment was made in 2005, and as of June 30, 2005, the principal balance was \$0.

**D. Brush Cutter**

In July 2000, the county entered into a financing obligation agreement for \$48,510 with Kentucky Association of Counties Leasing Trust Program for a brush cutter. Terms of the agreement stipulate a five-year repayment schedule with variable monthly interest payments and variable monthly principal payments. As of June 30, 2005, the principal balance was \$890.

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 890	\$ 2
Totals	<u>\$ 890</u>	<u>\$ 2</u>

**E. Road Paving**

In May 2002, the county entered into a financing obligation agreement for \$300,000 with Kentucky Association of Counties Leasing Trust Program for road paving. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on January 20 of each year to end on January 20, 2012. As of June 30, 2005, the principal balance was \$225,000. Obligations for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 30,000	\$ 10,352
2007	30,000	8,890
2008	30,000	7,429
2009	30,000	5,010
2010	35,000	3,698
2011-2012	<u>70,000</u>	<u>5,360</u>
Totals	<u>\$ 225,000</u>	<u>\$ 40,739</u>



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**F. Solid Waste Equipment**

In July 2003, the county entered into a financing obligation agreement for \$325,000 with Kentucky Association of Counties for a multi-purpose agreement for the purchase of solid waste equipment. However the county only used \$250,241 of the proceeds. During December 2003, the County Judge/Executive requested that the balance of the agreement be applied towards the principal thereby reducing monthly payments. Terms of the agreement stipulate a ten-year repayment schedule, with variable monthly interest payments and variable monthly principal payments to end on June 30, 2013. As of June 30, 2005, the principal balance was \$204,937. Payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2006	\$ 22,748	\$ 4,233
2007	23,439	3,708
2008	24,151	3,236
2009	24,885	2,682
2010	25,642	2,133
2011-2013	84,072	9,106
Totals	<u>\$ 204,937</u>	<u>\$ 25,098</u>

**G. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	520,808		77,982	442,826	59,637
Governmental Activities					
Long-term Liabilities	<u>\$ 520,808</u>	<u>\$ 0</u>	<u>\$ 77,982</u>	<u>\$ 442,826</u>	<u>\$ 59,637</u>

**Note 6. Employee Retirement System**

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$19,627 in interest on financing obligations.

**Note 8. Insurance**

For the fiscal year ended June 30, 2005, Lee County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Prior Period Beginning Fund Balance Adjustments**

The beginning fund balance of \$460,293 includes voided checks totaling \$330 from the prior year. The beginning fund balance for the General Fund increased by \$221, the Road Fund beginning balance increased \$108, while the Jail Fund beginning fund balance increased by \$1.

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**For The Year Ended June 30, 2005**



**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 544,400	\$ 544,400	\$ 706,998	\$ 162,598
In Lieu Tax Payments	8,000	8,000	9,503	1,503
Excess Fees	14	14	5	(9)
Licenses and Permits	13,085	13,085	11,677	(1,408)
Intergovernmental Revenue	460,392	760,392	553,637	(206,755)
Charges for Services	8,375	8,375	10,219	1,844
Miscellaneous	62,729	62,729	120,285	57,556
Interest	8,100	8,100	10,234	2,134
Total Revenues	<u>1,105,095</u>	<u>1,405,095</u>	<u>1,422,558</u>	<u>17,463</u>
<b>EXPENDITURES</b>				
General Government	459,749	459,749	509,273	(49,524)
Protection to Persons and Property	128,758	428,758	530,308	(101,550)
General Health and Sanitation	15,536	15,536	17,025	(1,489)
Social Services	44,782	44,782	35,797	8,985
Recreation and Culture	73,627	73,627	30,889	42,738
Roads			82,076	(82,076)
Debt Service	742,304	742,304	736,641	5,663
Capital Projects	294,000	294,000	78,708	215,292
Administration	166,160	166,160	120,921	45,239
Total Expenditures	<u>1,924,916</u>	<u>2,224,916</u>	<u>2,141,638</u>	<u>83,278</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(819,821)</u>	<u>(819,821)</u>	<u>(719,080)</u>	<u>100,741</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Kentucky Advance Revenue Program Proceeds	726,300	726,300	726,300	
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds	<u>(79,135)</u>	<u>(79,135)</u>	<u>(160,000)</u>	<u>(80,865)</u>
Total Other Financing Sources (Uses)	<u>647,165</u>	<u>647,165</u>	<u>666,300</u>	<u>19,135</u>
Net Changes in Fund Balance	<u>(172,656)</u>	<u>(172,656)</u>	<u>(52,780)</u>	<u>119,876</u>
Fund Balance - Beginning	<u>162,656</u>	<u>162,656</u>	<u>236,955</u>	<u>74,299</u>
Fund Balance - Ending	<u>\$ (10,000)</u>	<u>\$ (10,000)</u>	<u>\$ 184,175</u>	<u>\$ 194,175</u>

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 7,700	\$ 7,700	\$ 8,294	\$ 594
Intergovernmental Revenue	635,600	1,086,210	1,143,377	57,167
Miscellaneous	1,000	6,000	14,341	8,341
Interest	2,250	2,250	1,290	(960)
Total Revenues	646,550	1,102,160	1,167,302	65,142
<b>EXPENDITURES</b>				
Protection to Persons and Property			6,705	(6,705)
Roads	558,899	1,030,422	1,047,914	(17,492)
Debt Service	98,917	98,917	95,580	3,337
Administration	85,080	150,167	98,813	51,354
Total Expenditures	742,896	1,279,506	1,249,012	30,494
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(96,346)	(177,346)	(81,710)	95,636
<b>OTHER FINANCING SOURCES (USES)</b>				
Kentucky Advance Revenue Program Proceeds	28,600	28,600	28,600	
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds			(100,000)	(100,000)
Total Other Financing Sources (Uses)	28,600	28,600	28,600	
Net Changes in Fund Balance	(67,746)	(148,746)	(53,110)	95,636
Fund Balance - Beginning	67,746	148,746	149,489	743
Fund Balance - Ending	\$ 0	\$ 0	\$ 96,379	\$ 96,379

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 39,882	\$ 44,882	\$ 41,496	\$ (3,386)
Miscellaneous	100	100	350	250
Interest	100	100	76	(24)
Total Revenues	40,082	45,082	41,922	(3,160)
<b>EXPENDITURES</b>				
Protection to Persons and Property	189,300	191,300	197,649	(6,349)
Administration	8,250	23,250	4,815	18,435
Total Expenditures	197,550	214,550	202,464	12,086
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(157,468)	(169,468)	(160,542)	8,926
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	153,029	160,029	160,000	(29)
Total Other Financing Sources (Uses)	153,029	160,029	160,000	(29)
Net Changes in Fund Balance	(4,439)	(9,439)	(542)	8,897
Fund Balance - Beginning	4,439	9,439	10,300	861
Fund Balance - Ending	\$ 0	\$ 0	\$ 9,758	\$ 9,758

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 177,579	\$ 208,579	\$ 239,594	\$ 31,015
Miscellaneous			7,575	7,575
Interest	50	50	118	68
Total Revenues	<u>\$ 177,629</u>	<u>\$ 208,629</u>	<u>\$ 247,287</u>	<u>38,658</u>
<b>EXPENDITURES</b>				
Protection to Persons And Property			8,407	(8,407)
General Health and Sanitation		25,000	11,805	13,195
Roads	24,600	24,600	44,622	(20,022)
Administration		17,000	1,233	15,767
Total Expenditures	<u>24,600</u>	<u>66,600</u>	<u>66,067</u>	<u>533</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>153,029</u>	<u>142,029</u>	<u>181,220</u>	<u>39,191</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(153,029)</u>	<u>(160,029)</u>	<u>(160,000)</u>	<u>29</u>
Total Other Financing Sources (Uses)	<u>(153,029)</u>	<u>(160,029)</u>	<u>(160,000)</u>	<u>29</u>
Net Changes in Fund Balances		(18,000)	21,220	39,220
Fund Balances - Beginning		<u>18,000</u>	<u>18,015</u>	<u>15</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,235</u>	<u>\$ 39,235</u>



**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>AMBULANCE FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenues	\$ 11,000	\$ 11,000	\$ 10,689	(311)
Charges For Services	677,000	777,000	773,932	(3,068)
Miscellaneous Revenues	9,600	59,195	73,555	14,360
Interest Earned	200	200	138	(62)
Total Intergovernmental Revenues	697,800	847,395	858,314	10,919
<b>EXPENDITURES</b>				
Protection to Persons and Property	630,047	679,642	744,850	(65,208)
Administration	149,888	249,888	175,544	74,344
Total Expenditures	779,935	929,530	920,394	9,136
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(82,135)	(82,135)	(62,080)	20,055
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	69,135	69,135	60,000	(9,135)
Total Other Financing Sources (Uses)	69,135	69,135	60,000	(9,135)
Net Changes in Fund Balances	(13,000)	(13,000)	(2,080)	10,920
Fund Balances - Beginning	13,000	13,000	11,965	(1,035)
Fund Balances - Ending	\$ 0	\$ 0	\$ 9,885	\$ 9,885

**LEE COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplemental Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>SOLID WASTE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 17,446	\$ 17,446	\$ 36,552	19,106
Charges for Services	336,000	336,000	344,980	8,980
Miscellaneous			3,824	3,824
Interest	50	50	115	65
Total Revenues	<u>353,496</u>	<u>353,496</u>	<u>385,471</u>	<u>31,975</u>
<b>EXPENDITURES</b>				
General Health and Sanitation	299,232	299,232	286,961	12,271
Debt Service	29,200	29,200	28,531	669
Administration	50,064	50,064	51,732	(1,668)
Total Expenditures	<u>378,496</u>	<u>378,496</u>	<u>367,224</u>	<u>11,272</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>18,247</u>	<u>43,247</u>
Net Changes in Fund Balances	(25,000)	(25,000)	18,247	43,247
Fund Balances - Beginning	<u>25,000</u>	<u>25,000</u>	<u>33,569</u>	<u>8,569</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 51,816</u>	<u>\$ 51,816</u>

**LEE COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The supplementary schedules - budget to actual comparisons include Kentucky Advance Revenue Program Proceeds of \$726,300 for the General Fund and \$28,600 for the Road and Bridge Fund. However, these amounts are omitted from the fund financial statements.

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**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2005**



**LEE COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2005**

**A. FINDINGS - FINANCIAL STATEMENT AUDIT**

REPORTABLE CONDITIONS

None

STATE LAWS AND REGULATIONS

Solid Waste Bills Totaling \$15,594 Were Waived Without Fiscal Court Approval

During fiscal year 2005, 170 solid waste bills were waived totaling \$15,594. Forty-one waivers did not have a written waiver form. The judge/executive approved waiving 69 bills, the solid waste dispatcher approved waiving 40 bills, the treasurer waived one bill, and a magistrate waived 2 bills. A total of 17 waivers were not signed. Of the 129 waivers reviewed there were various reasons given for granting a waiver. However, no documentation was attached to validate the waiver. Of the total waivers reviewed 59 waivers stated people that had moved and no longer lived at the residence, 22 duplicate billing, 5 posting errors, 6 deceased resident, 1 resident in jail, 6 residents moved in with relatives or a nursing home due to illness or hardship, 18 garbage collection problems and the remaining 12 were for various other reasons. The fiscal court does not have a formal policy regarding waivers of solid waste bills. We recommend the fiscal court create a formal policy on solid waste collection and waivers of any bills. In particular, any waiver should have attached documentation to show a valid reason for bills to be waived.

*County Judge Executive L.C. Reese's Response:*

*I agree.*

Ambulance Bills Totaling \$60,870 Were Waived Without Fiscal Court Approval

A total of 78 ambulance bills with a total value of \$60,870 were written off as uncollectible without fiscal court approval. An additional 28 uncollected bills were given to the county attorney to pursue collections. Waivers were presented to the county judge/executive for old uncollectible accounts, the judge would sign the report and they were removed from the ambulance billing system. The waivers did not have any explanation as to why they should be waived and were not approved by fiscal court. The fiscal court does not have a formal policy or guidelines on allowing waivers on ambulance collections. We should note that fiscal court began approving ambulance waivers for fiscal year 2006; however, we recommend the fiscal court set a formal policy on allowing waivers.

*County Judge Executive L.C. Reese's Response:*

*We are correcting this.*

**LEE COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2005**  
**(Continued)**

STATE LAWS AND REGULATIONS (Continued)

Late Fees For Solid Waste Collections Should Be Applied Consistently

On June 30, 2003, the fiscal court approved to charge a 10% penalty on delinquent solid waste bills. The County is not collecting late fees on solid waste collections properly. Solid waste bills are billed monthly at \$12.50 per month. Payment is due by the 15<sup>th</sup> of the month or a penalty of 10% or \$1.25 is added to the bill. We noted that certain taxpayers are not paying the penalty after the 15<sup>th</sup> of the month as required, or if they did pay penalty, the system is crediting the penalty paid against a future bill. This situation occurred as a result of computer system errors and decisions made by county staff. We recommend the county implement appropriate administrative practices to collect and/or apply payment in an equitable and consistent manner.

*County Judge Executive L.C. Reese's Response:*

*We agree.*

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable L.C. Reese, Lee County Judge/Executive  
Members of the Lee County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Lee County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated April 24, 2006. Lee County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Lee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Solid Waste Bills Totaling \$15,594 Were Waived Without Fiscal Court Approval
- Ambulance Bills Totaling \$60,870 Were Waived Without Fiscal Court Approval
- Late Fees For Solid Waste Collections Should Be Applied Consistently



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of Lee County Fiscal Court, management, and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 24, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**LEE COUNTY FISCAL COURT**


**For The Fiscal Year Ended  
June 30, 2005**

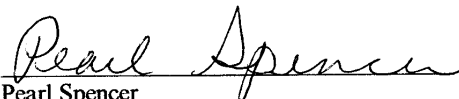


**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**LEE COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2005

The Lee County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
L.C. Reese  
County Judge/Executive

  
\_\_\_\_\_  
Pearl Spencer  
County Treasurer